

'Nearly half of mortgage holders have never seen a rate rise': Owners on variable rates set to grapple with monthly payment hike

- Interest rates are expected to rise from 0.25% to 0.5% on Thursday 2 November
- One in 20 on variable rate mortgages say the rise will cause them to struggle
- There are estimated to be 3.9 million active variable rate mortgages in the UK

With the Bank of England widely expected to raise interest rates next week, one in 20 borrowers on variable rate mortgages admit they will struggle to make ends meet as their monthly repayments rise.

Having been held at 0.25 per cent since August last year, interest rates are forecast to rise by 0.25 per cent to 0.5 per cent next week.

Research by consumer group Which? found that while one in 20 on variable rate mortgages think a rate rise will pose a threat to their finances, a much greater number at 31 per cent said their day-to-day living would be affected in some way.



On the up: Interest rates are expected to rise by 0.25 per cent to 0.5 per cent next week

That is despite the fact that a small rate rise would not add a huge amount to monthly payments.

This is Money's interest rate rise calculator shows that someone with a £155,000 repayment mortgage with 20 years left on a standard variable rate of 4.5 percent would see a £21 monthly bump in payments, or £251 per year, if their lender passes on a full 0.25 per cent base rate rise.

The effect would be greater for those on interest-only mortgages, who would see a £31 rise in monthly payments, or £375 per year, if they were on the same deal.

Many borrowers have shifted off standard variable rates - most of which are considerably more expensive than new fixed rate deals - however, there are still a sizeable number of homeowners who remain on them, either through choice or necessity.

A sizeable number of borrowers are also on tracker rate mortgages linked to the Bank of England base rate. They will automatically see their payment rate rise if the Bank of England raises interest rates, however, most will be paying lower rates than standard variable rate borrowers.

While Britain's savers have been longing for a rate rise, borrowers have been enjoying cheap mortgage deals for years, and many will have fixed into low rates over the last year or two.

But across the UK there are estimated to be around 3.9million active variable rate mortgages - either tracker or discounted variable rates, which have proved excellent bets for many years now, or even their lender's standard variable rate.



Highly variable: Across the UK, there are estimated to be around 3.9 million active variable rate mortgages

The figures, which come from a survey of over 2,000 people conducted by the consumer group, also reveal that 42 per cent of existing mortgage holders have been homeowners for 10 years or less.

According to Which? this means that just under half of mortgage holders have never experienced such a rise in interest rates, 'raising vital questions around levels of awareness and preparation.'

While interest rates are expected to rise by 0.25 per cent, over half of people on variable rate mortgages said a rise of 0.75 per cent would have an impact on their day-to-day lives.

An increase of 2 per cent would have an even greater impact, with 78 per cent on variable rate mortgages saying their finances would take a hit.

Eighty-one per cent of people with fixed rate mortgages expiring in less than a year said they will also have to start worrying about their day-to-day finances if interest rates rise by 2 per cent.

Harry Rose, Which? Money Editor said: 'With one in 20 of variable rate mortgage holders saying they would struggle to make ends meet, it's important that preparation to deal with the impact of a hike starts now.'

'Planning ahead with an effective budget is one simple way to stay on top of your finances.'

'But we'd also like to see banks, lenders and utility companies reaching out to those deemed most vulnerable. For those concerned - speak to your bank and seek urgent advice. Plan now to avoid being caught out.'



Worrying rates: One in 20 people on variable rate mortgages think a rate rise will plunge their finances into disarray

A number of major players in the lending market, including Barclays, NatWest, Nationwide and Halifax, have already increased rates on some of their mortgage products, signalling the end of an era for ultra cheap deals.

Separate data published by broker largemortgageloans.com suggests that those with a £500,000 20-year variable or tracker mortgage will be paying over £600 extra a year if interest rates increase by 0.25 per cent.

On a £1.5million mortgage, this figure rises to an additional £1,929.72 in mortgage repayments a year.

Paul Welch, chief executive of largemortgageloans.com, said: 'It's incorrect to think that people with larger mortgage loans are the super-rich who can easily service increased mortgage payments.

'There are thousands of borrowers in this category for whom a rise in interest rates will have a significant effect.'

The Bank's Monetary Policy Committee, led by Mark Carney has been dropping heavy hints that an interest rate rise is on the cards.

Inflation has hit 3 per cent, which is above the Government's ideal target of 2 per cent.



Expectations: With inflation above the Government's target and the economy performing better than expected, interest rates look set to rise on Thursday next week

Figures published by the Office for National Statistics earlier this week also revealed that Britain's economy grew by a higher than expected rate of 0.4 per cent in the three months to September.

The biggest contributor to growth in the third quarter was the service sector, which expanded by 0.4 per cent.

Manufacturing returned to growth after a weak second quarter, rising 1 per cent.

Construction activity slowed for the second consecutive quarter, but the industry is still performing better than during its pre-downturn peak.

The Bank of England's rate setting committee will be meeting to determine whether interest rates will rise on Thursday 2 November.